

Presented to the House of Commons pursuant to Section 6 of the Government Resources and Accounts Act 2000

Cabinet Office: Civil Superannuation

Resource Accounts 2009-10

London: The Stationery Office

22 July 2010

HC 245

£9.75

Cabinet Office: Civil Superannuation

Resource Accounts 2009-10

(For the year ended 31 March 2010)

being the accounts of the Principal Civil Service Pension Scheme, compensation agency arrangements and other minor agency and principal pension scheme arrangements

*Ordered by the House of Commons to be printed on
22 July 2010*

LONDON: The Stationery Office

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£9.75

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ISBN: 9780102965773

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002365142 07/10

Printed on paper containing 75% recycled fibre content minimum.

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Report of the Manager

Introduction

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, defined benefit, contributory, public service occupational pension scheme. The PCSPS covers four pension arrangements. New entrants joining the Civil Service from 30 July 2007 are offered membership of **nuvos**, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of **premium**, **classic** and **classic plus**. Money purchase pensions known as **partnership** are available as an alternative for employees joining on or after 1 October 2002. **Partnership** is delivered through employer-sponsored stakeholder pensions from a choice of pension providers.

Roles and responsibilities (year ending 31 March 2010)

Employers

Cabinet Office as manager of the scheme (see below) formally delegated responsibility for pensions administration to employers. Employers are responsible for:

- maintaining pay and service records;
- determining eligibility for the pension arrangements on recruitment;
- keeping their employees informed on pension issues;
- arranging with their Authorised Pension Administration Centre for the calculation of pension benefits for their employees;
- paying employers' and employees' pension contributions to the scheme.

Authorised Pension Administration Centres (APACs)

During the year, employers used one of eight APACs to calculate pension awards on their behalf. All APACs use PenServer, pension administration software, to calculate the awards.

Capita Hartshead

APACs send awards to Capita Hartshead to pay benefits. Capita Hartshead is responsible for:

- pensions administration for pensioners and deferred pensioners including paying pensions;
- maintaining accurate and secure records and maintaining a proper audit trail of all transactions;
- calculating and paying annual pensions increases;
- deducting and paying over tax to HMRC;
- operating a payroll bank account;
- producing financial and management reports;
- responding to pensioners' enquiries;
- taking action on death.

Cabinet Office

Cabinet Office manages the Scheme. It is responsible for:

- admission of employers to the PCSPS;
- development of policy and maintenance of scheme rules;
- maintenance and development of pensions administration software (PenServer);
- provision of advice, information and guidance to employers, APACs and scheme members;
- provision of second tier internal dispute resolution procedures;
- scheme finances, including production of annual resource accounts;
- management of the Capita Hartshead, pensioner payroll contract.

Cabinet Office also acts as agent for employers in the payment of compensation benefits arising under the Civil Service Compensation Scheme (CSCS). These benefits are calculated by APACs and paid by Capita but are subsequently recovered from employers. These flows are not brought to account in these financial statements.

The financial statements also include pensions and pensions increases payable under a number of other schemes, the majority of which are closed small schemes. Expenditure on all these schemes is less than one per cent of the total expenditure. This report makes no further reference to them. Money invested in the stakeholder pension option is not under the control of the Cabinet Office and is not shown in these statements although employer contributions will be reflected in individual departmental resource accounts.

The statements also include transactions and balances in respect of the Security Service and Secret Intelligence Service pension schemes, which are managed under separate arrangements.

The managers and advisers for the Civil Service schemes are listed below:

Changes to Civil Service Pensions Delivery

During the year to 31 March 2010 Civil Service Pensions Division (CSP) of the Cabinet Office exercised the Cabinet Office's responsibilities as Scheme Manager, with the exception of policy development and maintenance of the scheme rules. This work was undertaken by CSP until the end of September 2009 at which point it was integrated with the Civil Service Reward function within Cabinet Office's Civil Service Capability Group.

In July 2009 the Permanent Secretaries Management Group agreed that the Civil Service should adopt a new and more streamlined administration model to deliver its pension arrangements. From 1 April 2010 a new Scheme Management Board (SMB) will therefore take on the management and oversight of the Civil Service pension arrangements. The SMB will draw members from across the Civil Service and will also include pension scheme member representatives. A Scheme Management Executive within Cabinet Office will support the SMB's activities. Cabinet Office retains responsibility for the production and publication of future Resource Accounts and there is no change in Accounting Officer. From 1 April 2010 day-to-day pension administration has been delegated to the Department for Work and Pensions (DWP) where it is being delivered by My Civil Service Pension, part of DWP's shared services capability.

Managers

- Accounting Officer: Sir Gus O'Donnell KCB, Cabinet Office, 70 Whitehall, London, SW1A 2AS.
- Scheme Manager: Civil Service Pensions Division, Cabinet Office, 8th Floor, Grosvenor House, Basing View, Basingstoke, RG21 4HG.

Advisers

- Scheme Actuary: Hewitt Bacon & Woodrow Ltd, Parkside House, Epsom, KT18 5BS.
- Legal Advisers: The Treasury Advisory Division, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ.
- Medical Advisers: Capita Health Services, Greyfriars, 10 Queen Victoria Road, Coventry, CV1 3PJ.
- Money Purchase Scheme Advisers: Hewitt Associates Financial Services Ltd, 6 More London Place, London, SE1 2DA.
- Auditors: Comptroller and Auditor General, 157-197 Buckingham Palace Road, London, SW1W 9SP.
- Bankers: Office of HM Paymaster General, Sutherland House, Russell Way, Crawley, RH10 1UH.

Rule changes

The PCSPS rules were amended during the year to introduce additional flexibilities for scheme members at no additional cost to the Exchequer. The amendments, which were laid before Parliament on 4 February 2010, give scheme members who retire early the option to buy out the actuarial reduction that would otherwise apply to their pension. Under this option, members may pay a special contribution into the PCSPS or, if they are due compensation on redundancy or for some other reason, they may ask their employer to pay all or part of that compensation into the scheme. The amendments also allow pension credit members (who have pension rights as a result of a pension sharing on divorce order) to take their pension before the scheme's normal pension age, on an actuarially reduced basis.

The up-to-date scheme rules can be found on the Civil Service Pensions website www.civilservice.gov.uk/my-civil-service/pensions

The CSCS rules were also amended in February 2010 to give effect to changes in compensation terms consulted on in *Fairness for All* in July 2009. The new arrangements provided service-based redundancy payments of up to two years' pay and also allowed for a transitional period during which people leaving on redundancy could choose between the old and new terms. The CSCS amendments also introduced new Discretionary Exit terms which gave departments greater flexibility than before in determining the terms to offer for voluntary early departures. On 10 May 2010 the PCS union was successful in its application to the High Court for judicial review of the amendments, on the basis that the changes were (in some cases) detrimental to accrued rights. The effect of the High Court judgement, together with a further judgement on 18 June, is that most of the CSCS amendments were quashed.

Pension overpayments

During 2008-09 administrative checks revealed an inconsistency in the calculation of a number of individual pensions because of incorrect uprating being applied to an element

known as the Guaranteed Minimum Pension or GMP. This resulted in both overpayments and underpayments of pensions. The overpayments (and underpayments) were corrected this year. Those who have been overpaid have not been required to repay the overpayment but their pensions have been adjusted to the correct level from April 2009. Additional processes have been put in place to avoid a repeat of this problem. The National Audit Office (NAO) have conducted a review of the end to end process to identify causes of the error and made a number of recommendations. As a result of this review HM Revenue and Customs have established a GMP Advisory Group to look at all NAO's recommendations and take forward changes to the GMP process. This group is comprised of representatives from the major public sector scheme including Cabinet Office.

Civil Service Additional Voluntary Contribution Scheme (CSAVCS)

Civil Service Pensions (CSP) continues to exercise its duty of care towards members by monitoring the CSAVCS providers, working with the scheme's financial advisers, Hewitt Associates Financial Services Ltd (Hewitt).

In March 2009, the Standard Life Managed Cash One Fund was added as an option to the Standard Life CSAVC arrangement in order to provide access to a money market fund primarily concerned with capital preservation.

CSP decided to introduce three additional Lifestyle options within the Standard Life fund range. Current Lifestyle options were closed to new entrants. Existing members could either switch their current profile or continue to invest in their current option. The new Lifestyle options offered the Managed Cash One Fund within their structure and were introduced as they reduced the potential for fund values to fall prior to members' retirement.

In June 2009, CSP wrote to members invested in the Equitable Life CSAVC arrangement, advising them of announcements on policy values, bonus rates and developments in relation to the proposed ex gratia payments scheme for with profits policyholders.

In November 2009, in relation to the CSAVC arrangement with Scottish Widows, CSP wrote to members invested in the Building Society Fund, informing them of changes that had taken place in the securities held within the Fund.

Employer membership of the PCSPS

During the year we identified an issue relating to the ongoing eligibility of certain employers to remain participating members of the PCSPS. The issue relates to bodies who participate in the scheme by virtue of being added by Order to Schedule 1 of the Superannuation Act 1972. The Act stipulates that staff pay in such bodies must be funded by monies provided by Parliament, the Consolidated Fund, the Scottish Consolidated Fund or a fund established by Act of Parliament. Whilst all bodies admitted by Order met this funding criterion at the time of admittance, it transpired that six employers have since become funded in whole or in part by fees. The total number of active staff affected is estimated to be under 650 (around 0.1% of the membership), while the employers concerned paid a total of £4.6m in pension contributions to the PCSPS in 2009-10. The Cabinet Office will be making a technical amendment to the Superannuation Act 1972 within the next twelve months that will reflect the policy intent and regularise the position for these employers remaining in the PCSPS.

III-health Retirement Review

The Scheme Medical Advisor reports on the number of applications for medical retirement they deal with each year. During 2009-10 they advised on 2,175 cases, supporting medical retirement in 649. This compares with 2,667 applications in 2008-09, of which 1,088 were supported.

Communications

During the year Cabinet Office developed and produced information in a variety of formats for scheme members, working with employers and APACs to deliver these. In April 2009 Cabinet Office held a Conference for employer representatives. Over 270 representatives attended and discussed their role in a range of communications. Topics included partial retirement and ways to raise members' awareness of their pension provision. In response to issues raised at the conference discussions, Cabinet Office issued further guidance on partial retirement.

Complaints under the Internal Dispute Resolution (IDR) Procedures

Members and beneficiaries of the Civil Service pension arrangements who have a complaint can raise this through the IDR procedure. At the first stage of the procedure the complaint is reviewed and a decision made by the administrator concerned (either the APAC or Capita). In the event of an appeal against the first stage decision the complainant can request that a further review be undertaken by Cabinet Office. Finally, members who remain dissatisfied after completing the IDR process can ask the Pensions Ombudsman to investigate their complaints. His decisions are binding on all parties, subject only to an appeal to the High Court on a point of law.

During the year the APACs and Capita completed 195 first stage decisions, upholding in full or part 37 of the complaints that they investigated. In the same period Cabinet Office completed 126 investigations at the second stage of the IDR process. In 92 cases CSP found in favour of the administrators. In the remaining 34 cases, CSP upheld in full or in part the complaints made by the scheme members and, where appropriate ordered remedial action.

The Pensions Ombudsman completed investigations into 17 of CSP's cases during the year and upheld CSP's decision, in full or part, in 14 of them.

National Fraud Initiative (NFI)

NFI is a biennial IT data matching exercise co-ordinated by the Audit Commission involving organisations within central and local government working together to identify and eliminate frauds and overpayments. Data on PCSPS pensions in payment are compared against data on recorded deaths to identify cases where pensions might remain in payment to deceased persons. PCSPS data are also matched against housing benefits so that local authorities can identify claimants who have failed to declare receipt of an occupational pension. Work commenced on the NFI 2008 report in April 2009 and was the sixth exercise in which CSP had participated. CSP identified about 400 potential overpayments of around £1.5 million in total. Around 300 cases have been contacted and £300,000 recovered. Investigation and recovery of the remaining overpayments are being actively pursued. During 2009-10 outstanding debts arising from the NFI 2006 exercise were reduced to £330,000 which are being recovered.

Pensions increase

Pension payments increased by 5.0% from 6 April 2009, in line with the movement in the RPI All-items index from September 2008 to September 2009.

Membership statistics			
Membership of the PCSPS at 31 March:			
	2010		2009
Active members*	574,000		564,000
Deferred members	345,000		332,000
Pensions in payment			
Officers	463,000		452,000
Dependants of deceased members	129,000		129,000
Annual compensation payments (and other on-going payments) for which employers are responsible	17,700		16,700
Staff opting for partnership pension arrangements	9,700		7,400

*The approximate split of active membership at 31 March 2010 was 58% **classic**, 3% **classic plus**, 25% **premium** and 14% **nuvos**.

At 31 March 2010 Cabinet Office had delegated pension administration to 276 employers (At 31 March 2009 - 232).

Further information

Please address any enquiries about Civil Service pension arrangements to:
Pensions Scheme Management Executive
Cabinet Office
8th Floor
Grosvenor House
Basing View
Basingstoke
RG21 4HG

Gus O'Donnell
Accounting Officer
13 July 2010

Accounting Officer

Report of the Actuary

Accounts for the year ended 31 March 2010

A. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded public service scheme made under the Superannuation Act 1972. All payments of benefits and other liabilities from the Scheme are met from the Civil Superannuation Request for Resources (RfR). Participating employers make contributions known as Accruing Superannuation Liability Charges (ASLCs), which are treated as Appropriations in Aid on the RfR. ASLCs are regularly assessed by the Scheme Actuary and are consistent with those that might have applied had the Scheme been funded, making allowance for amortised surpluses or deficits that would have arisen in a funded scheme based on an assumed notional investment return. The most recent ASLC assessment was carried out by Hewitt Associates Limited as at 31 March 2007 and included recommendations for the contribution rates applicable from 1 April 2009.

B. This Report relates solely to the liabilities of the Principal Civil Service Pension Scheme. Liabilities relating to payments made before normal retirement age as compensation for early retirement under the terms of the Civil Service Compensation Scheme fall to employers and are excluded.

C. Liabilities

We have assessed the value of the expected benefit entitlements under the Principal Civil Service Pension Scheme built up during periods of employment (or former employment) prior to 31 March 2010. The capitalised value as at 31 March 2010 has been assessed using the methodology and assumptions set out in Sections E and F below. The results are as follows:

Value of Liabilities	£ billion
Current pensions & associated contingent pensions	57.8
Deferred pensions, including contingent pensions, for those no longer contributing	24.8
Accrued benefits available to members contributing to the scheme	70.4
Total	153.0

D. Accruing Costs

The cost of benefits accruing for each year of service is shared between members and employers. Employees in the **classic** section make contributions of 1.5% of pensionable pay. Employees in the **classic plus** and **premium** sections, which came into effect as from 1 October 2002, make contributions of 3.5% of pensionable pay. Employees in the **nuvos** section, which came into effect as from 30 July 2007, also make contributions of 3.5% of pensionable pay. Employers meet the balance of the cost.

We have assessed the employers' share of the cost of benefits accruing in the year ended 31 March 2010 (the employers' share of the 'current service cost') to be 21.3% of pensionable pay, as determined at the start of the year.

To determine the amounts actually charged to employers under the ASLC mechanism the employers' contribution is separately assessed for each of four ranges of pay levels, based on full-time equivalent pay at the beginning of the financial year. The contribution rates which were assessed under the ASLC mechanism as required to meet the cost of benefits accruing in the year 2009-10 were as follows:

Employer's Share of Contribution Rate	
Pay band from April 2009	% of Pensionable Pay Rate charged
£20,500 and under	16.7%
£20,501 to £42,000	18.8%
£42,001 to £72,000	21.8%
£72,001 and above	24.3%
Estimated average rate charged to Employers for current year	18.9%
Rate payable by the Prison Service for prison officers employed before September 1987 and entitled to enhanced benefits	25.8%

The employers' contributions receivable are assessed as £2.8 billion for financial year 2009-10. The next ASLC assessment will be carried out as at 31 March 2010.

E. Methodology

The value of the liabilities referred to in Section C has been obtained by using the projected accrued benefits method. Expected future pay increases made to employed members are allowed for. The current service cost calculation referred to in Section D has been determined using the projected unit method, with a control period of 1 year.

F. Assumptions

The principal financial assumptions adopted for the pension liability assessments referred to in Section C are an investment return in excess of price increases of 1.80% p.a. (pension benefits under the Scheme are generally increased in line with prices), and an investment return in excess of earnings increases of 0.34% p.a.. The gross rate of return is assumed to be 4.60% p.a. although this assumption has only a minor impact on the calculation of the liability. In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 4.25% p.a. and an allowance for price inflation of 2.75% p.a.

With the exception of the allowance for future improvements in post-retirement mortality, the demographic assumptions used for the pensions liability assessments referred to in Section C are those adopted for the most recent ASLC assessment, and were derived from the specific experience of the membership of this Scheme. Allowance has been made for future improvements in post-retirement mortality in line with the improvements underlying the ONS (2006-based) national population projections (principal).

As an illustration, the assumed life expectancy at age 60 for a member (in normal health) who is currently age 60 is 28.0 years for a man and 30.0 years for a woman. The assumed life expectancy at age 60 for a member (in normal health) who is currently aged 40 is 30.0 years for a man and 31.9 years for a woman.

For the current service cost calculation referred to in Section D, which was determined as at 31 March 2009, the principal financial assumptions were an investment return in excess of price increases of 3.20% p.a. and an investment return in excess of earnings increases of 1.72% p.a. The demographic assumptions were identical to those adopted for the pension liability assessments referred to in Section C.

G. Notes

Our calculation of the liabilities as at 31 March 2010 has been based on a detailed but approximate update of a full actuarial valuation of the Scheme as at 31 March 2007. For this purpose we have used data supplied by the Scheme administrators as at 31 December 2009. Our calculations take account of the fact that no pension increase was granted in April 2010.

The pension benefits taken into account in this assessment are those normally provided under the rules of the pension scheme. These include those paid on retirement, ill-health retirement, and following the death of a member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits) or redundancy benefits which might arise in respect of current employees.

Statement

We have prepared this Report for the Cabinet Office as managers of the Principal Civil Service Pension Scheme. In our opinion the assessment of the liabilities of the Scheme as at 31 March 2010 and of the accruing cost of benefits set out above comply with the requirements of Chapter 12 of the Financial Reporting Manual for the financial year 2009-10.

This report complies with the requirements of Technical Actuarial Standard R: Reporting Actuarial Information ("TAS R") on the basis that we do not anticipate users making decisions based directly on this report. In the event that decisions are being made then appropriate advice should be sought.

For Hewitt Associates Limited
Jonathan Teasdale
Fellow of the Institute of Actuaries

26 May 2010

Statement of Accounting Officer's Responsibilities

Under the Government Resources & Accounts Act 2000, HM Treasury has directed the Principal Civil Service Pension Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the Principal Civil Service Pension Scheme and certain other minor pension schemes during the year and the disposition, at the end of the financial year, of the net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liabilities at the year end.

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the accounts direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

HM Treasury has appointed Sir Gus O'Donnell as Accounting Officer for the Principal Civil Service Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Civil Superannuation's policies, aims and objectives, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

For the year ending 31 March 2010 I delegated to the Head of Civil Service Capability Group (CSCG), responsibilities for the management of the Civil Superannuation resources. This delegation was contained in a Memorandum of Understanding (MOU) which formed part of a wider delegation and control framework designed to ensure that Civil Superannuation receives all monies properly due, and to safeguard the regularity and propriety of expenditure. The MOU set out those responsibilities which co-existed with, and were additional to, the Head of CSCG's normal duties as a Cabinet Office official.

From 1 April 2010, this delegation has changed, along with the pensions delivery structure. I cover this in more detail at the end of this statement.

During 2009-10, responsibility for pensions administration was delegated to employers under the Superannuation Act 1972. This meant that Accounting Officers in departments and other employers were responsible for all aspects of pensions administration including the calculation of pension benefits for their employees and for ensuring that appropriate systems of internal control were in place. All employers engaged one of eight Authorised Pension Administration Centres (APACs) to calculate pension awards on their behalf. These APACs operated to a developed control framework standard. All APACs were reminded of their corporate governance responsibilities during the year and accepted these responsibilities. Under an agreed protocol Accounting Officers provided me with annual assurance certificates regarding the administration of the PCSPS for their staff.

Accounting Officers are responsible for reporting annually to me on compliance with the terms of their Delegation Instrument for pensions administration through the Accounting Officer Certificate (AOC) and checklists.

Where completion of the checklist shows that a requirement has not been met, or a control is not operating effectively, Accounting Officers must qualify their AOCs stating the compliance issues and the remedial action being taken. For the financial year 2009-10 I have received all AOCs. I have received 51 qualified certificates (from a total of 276).

This is a decrease from the number of qualifications in previous years and is evidence of the increased engagement of employers in understanding their delegated responsibilities in pensions administration. Although not material in the context of the whole scheme these qualifications do indicate a number of weaknesses in the delivery of pensions administration at a number of employers. Many of the qualifications relate to the lack of an electronic interface between employers' payroll systems and the pensions administration system and/or the non-issue of annual benefits statements to active members. Some affected employers are providing regular data through other means and others are progressing work to provide the interfaces. The Scheme Management Executive is investigating all qualifications to provide me with assurance that employers are fulfilling their responsibilities by taking adequate action to improve matters, in particular on the timely and efficient transfer of payroll data. Overall, I am satisfied that the qualifications are not material and that the certificates provide me with an adequate level of assurance on controls in place in respect of the scheme as a whole.

The Civil Service Pensions Governance Group, which I introduced in October 2008, continued to independently monitor the service delivery of the Civil Service pension arrangements. The Group meets every 3 months and sends a report to me after each

meeting. The following is a summary of the main issues covered by the Group during 2009-10.

- The Group monitored the performance of the APACs and the pensioner payroll provider (Capita Hartshead).
- The Group worked with CSP in moving towards agreement of common service standards for the investment providers of the Civil Service defined contribution arrangements.
- The Group monitored progress on the data cleansing exercise that was ongoing throughout the reporting year.
- CSP updated the group on the follow up work being carried out following last year's AOC exercise.

Responsibility for the administration of the Security Service and Secret Intelligence Service pension schemes included in these financial statements rests with the relevant agencies. Peter Ricketts, National Security Adviser to the Prime Minister has provided me with an annual assurance statement that he is satisfied that there are suitable controls in operation within the agencies.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the aims and objectives of Civil Superannuation, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Civil Superannuation for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

For the 2009-10 accounting period, management of the PCSPS was dealt with by CSP – a division of CSCG with some 50 staff. Management of risk was embedded in policymaking, planning and delivery and comprehensive guidance on risk management was available on the departmental intranet. In CSP the main processes for identifying, evaluating, managing risk and changes to risks were conducted at team level. In accordance with the MOU, risk registers were maintained by each team in CSP and reviewed regularly by the teams and by the CSP risk manager. The risk manager was responsible for compiling and maintaining a register of CSP's Key Risks. These risks were discussed as a standing agenda item at each monthly CSP management team meeting. The risk manager made any changes to the Key Risks register necessary following discussion at the monthly team meeting. Business priorities were set out in the CSP business plan and all risks which could have a major impact on the Cabinet Office were communicated to the Senior Management Team of the Civil Service Capability Group and to me. They would also be reported to the Cabinet Office Audit and Risk Committee (COARC) which advises me on the effectiveness of the systems of internal control. CSP regularly submitted a copy of the Key Risks register to COARC for discussion.

The risk and control framework

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by COARC. My review is also informed by the work of those who have responsibility for the development and maintenance of the internal control framework, as well as comments made by both internal and external auditors in their management letter and other reports.

The very nature of the Scheme's devolved structure necessitated CSP obtaining assurances on my behalf from a range of sources outside its direct control. CSP worked with employers, both through improvements to the Accounting Officer Certificates above and through regular follow up, to improve the information I received and the quality of the controls in employers. CSP also continued to work closely with the APACs to monitor their controls.

Civil Superannuation is a standing agenda item at all COARC meetings and CSP provided the Committee with updates, as necessary, on accounting and risk/control issues. Cabinet Office Internal Audit confirmed that the system of internal control overseen by CSP is effective.

In anticipation of wider changes to the delivery of pensions (covered later in this statement), and in order to integrate pay and pension policy better, from October 2009 I transferred responsibility for the development of Civil Service pension and compensation policy to the Cabinet Office's Civil Service Reward Team.

As noted in the Report of the Manager we have identified an issue relating to the ongoing eligibility of a small number of employers to remain in the Civil Service pension arrangements. The issue affects an estimated 650 employees of six employers. I am committed to ensuring that the Cabinet Office resolves in the year ahead, the issue of those employers whose changed funding arrangements has brought into question their continuing membership of the PCSPS. I anticipate that the resolution of this problem will come through a clarificatory amendment to the Superannuation Act 1972.

The National Audit Office has also considered the level of assurance that the system of internal control provides. They consider that the systems used by CSP to process financial transactions were sound, the financial control environment satisfactory so as to ensure the accuracy of financial reports and budgets, and that the overall IS/IT environment was operating satisfactorily. NAO's review included both APAC and Capita Hartshead operations.

NAO have concluded that there are no material weaknesses in the accounting and internal control systems. However their review of the APACs identified some minor shortcomings in the control environments at some APACs. Over the coming months the Scheme Management Executive will work with MyCSP who are now responsible for the former APACs to improve matters and will monitor the implementation of agreed improvements.

Data Security

Employers are responsible for pensions data held by themselves or by their payroll provider. However, CSP provided guidance to both employers and APACs on the security of pensions data in transit and the secure storage of data by the APAC. CSP monitored compliance to that guidance. Employers are required to certify that they have a secure payroll interface with PenServer, or an alternative agreed with CSP, who monitor the status of payroll interfaces.

In order to facilitate the transfer of data between APACs and Capita, for example when an individual's benefits were paid, CSP provided Common Application Repository (CAR). CAR acts as a secure hub for data transfer using the Government Secure Intranet. At the time of

its introduction the architecture and approach were approved by the Office of Government Commerce Buying Solutions, the Central Sponsor for Information Assurance, and the National Infrastructure Coordination Centre.

Capita's secure data handling was monitored by CSP under contract. Capita exchange data with HMRC, DWP, and their banking partners. Such exchanges were monitored by CSP under their contract with Capita.

Cabinet Office has a Senior Information Risk Owner (SIRO), whose role is to 'own' the Department's information risk policy and assessment and by so doing to ensure that it is embedded into the culture and work of the department. The SIRO is supported by a network of Information Asset Owners (IAOs). These staff oversee data handling in the management units for which they have responsibility. CSP appointed an IAO.

Planned improvements

Work to review the quality of the data held by the APACs progressed well throughout the reporting year and is now almost complete.

In the accounts for the year 2008-09 I reported that, following an issue relating to Guaranteed Minimum Pensions (GMPs), changes to processes and controls were being implemented to avoid a repeat of this problem. CSP have fully participated in the HMRC led review of the GMP processes that resulting in the problem, and are part of a Pensions Technical Group set up by HMRC to take this work forward.

As noted earlier, I have made significant changes to the way the Civil Service pension arrangements are delivered. In July 2009, Permanent Secretaries approved a programme to improve the efficiency and governance of the pension arrangements. As a result, from 1 April 2010 responsibility for the management of the Civil Superannuation resources is no longer delegated to the Head of CSCG. I have now delegated this responsibility to Jonathan Stephens in his role as Chair of the newly formed Scheme Management Board (SMB). The SMB comprises of employer and union nominated members, a central government representative, and two (non-voting) non-executive members. The SMB's purpose is to:

- manage the schemes that comprise the Civil Service pension arrangements;
- develop and manage a risk management framework and system of internal control; and
- select, appoint, re-appoint and remove the administrator(s) of the scheme.

The SMB has taken over the Governance Group's pensions administration monitoring role. However, the Governance Group continues with its role in ensuring pension scheme members and their employers are involved in the process for reviewing scheme costs.

Before 1 April 2010, responsibility for pensions administration was formerly delegated to each participating employer, who discharged this responsibility by appointing one of the (then) APACs. I have now delegated responsibility for all administration to the Department for Work and Pensions (DWP). The employer delegations have therefore now been withdrawn and replaced with a participation agreement. This agreement covers the provision of correct scheme member payroll data, payment of scheme contributions and admission of new members.

A delivery organisation responsible for all scheme administration has been established within DWP Shared Services and is known as My Civil Service Pension (MyCSP).

MyCSP has brigaded into a single organisation all the former Civil Service APACs (now called Pension Service Centres - PSCs) together with the customer support and communications functions of the former Civil Service Pensions division of the Cabinet Office. The contracts with the two private sector APACs, plus the pensioner payroll contract,

PenServer contracts and certain other contract held by CSP are transferring to MyCSP. The SMB manage MyCSP's performance through a formal service agreement.

The SMB is supported by a Scheme Management Executive (SME) within the Cabinet Office, consisting of the remainder of the former CSP. The SME provides secretariat functions for the SMB, manages the service agreement with MyCSP on a day-to-day basis, provides pensions technical support to MyCSP (including exercising certain scheme discretions), operates the statutory second stage internal dispute resolution procedures, and manages the scheme finances.

The SMB will establish Risk and Operations committees. The Risk Committee will design and oversee the programme for internal audit during 2010-11, which will aim to consider more fully all parts of the delivery model. The Operations Committee will examine and monitor the performance of MyCSP.

Gus O'Donnell
Accounting Officer

13 July 2010

The Certificate and Report of the Comptroller and Auditor General to the House of Commons and Cabinet Office: Civil Superannuation

I certify that I have audited the financial statements of Cabinet Office: Civil Superannuation for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Combined Revenue Account, the Combined Statement of Recognised Gains and Losses, the Statement of Financial Position, the Consolidated Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Cabinet Office: Civil Superannuation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Cabinet Office: Civil Superannuation; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the scheme's affairs as at 31 March 2010, and the net cash requirement, net resource outturn, combined net outgoings, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

In my opinion, the information given in the Report of the Manager and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns;
or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

15 July 2010

Statement of Parliamentary Supply for the year ended 31 March 2010

Summary of Resource Outturn 2009-10

		Estimate			Outturn			2009-10 £000	2008-09 £000
								Outturn	
								Net Total outturn compared with Estimate: saving/ (excess)	Net Total
Request for Resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total		
Civil Superannuation	5	10,899,001	3,458,700	7,440,301	10,894,112	3,456,235	7,437,877	2,424	7,156,509
Total resources		10,899,001	3,458,700	7,440,301	10,894,112	3,456,235	7,437,877	2,424	7,156,509

Net cash requirement 2009-10

		2009-10 £000			2008-09 £000
					Outturn
					Net Total outturn compared with estimate: saving/ (excess)
	Note	Estimate	Outturn		
Net cash requirement	6	1,456,501	1,134,771	321,730	997,918

Summary of the income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

		2009-10 £000		2009-10 £000	
		Forecast		Outturn	
Note	Income	Receipts	Income	Receipts	
Total	7	-	-	21	21
		-	-	21	21

Explanation of the variation between Estimate Request for Resources and Outturn Request for Resources.

The outturn is within 0.03% of the Estimate.

Explanation of the variation between estimate net cash requirement and outturn net cash requirement.

The use of provisions for pensions was less than expected due to the timing of the settlement of bulk transfers and the payment of lump sums.

The notes on pages 26 to 46 form part of these accounts.

Combined Revenue Account for the year ended 31 March 2010

		<u>2009-10</u>	<u>2008-09</u>
	Note	<u>£000</u>	<u>£000</u>
Principal arrangements			
PCSPS			
Income			
Contributions receivable	9	(3,188,185)	(3,158,387)
Transfers in	10	(110,440)	45,315
Other pension income	11	(83,439)	(66,426)
		<u>(3,382,064)</u>	<u>(3,179,498)</u>
Outgoings			
Pension cost	12	3,510,001	3,830,000
Enhancements	13	125,388	104,485
Transfers in	14	110,096	(50,598)
Interest on scheme liabilities	15	6,970,000	6,350,000
Injury Benefits	16	8,559	7,958
		<u>10,724,044</u>	<u>10,241,845</u>
Net outgoings for the year		<u>7,341,980</u>	<u>7,062,347</u>

Compensation agency arrangements**Outgoings****CSCS**

Benefits payable	17.1	53	232
Net outgoings for the year		<u>53</u>	<u>232</u>

Other minor agency and principal pension scheme arrangements**Other pension schemes****Income**

Contributions receivable		(74,192)	(62,085)
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Outgoings

Total charge to provisions	32	168,837	154,889
Benefits payable	18	1,178	1,125

Net outgoings for the year		<u>95,823</u>	<u>93,929</u>
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Combined net outgoings for the year		7,437,856	7,156,508
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Combined Statement of Recognised Gains and Losses

for the year ended 31 March 2010

Actuarial (gain)/loss	30	31,712,528	(9,832,851)
Recognised (gain)/loss for the financial year		<u>31,712,528</u>	<u>(9,832,851)</u>

The notes on pages 26 to 46 form part of these financial statements.

Statement of Financial Position as at 31 March 2010

	Note	<u>31 March 10</u> £000	<u>31 March 09</u> £000	<u>1 April 08</u> £000
Principal arrangements				
PCSPS				
Current assets:				
Receivables (within 12 months)	21.1	271,018	316,694	359,139
Cash and cash equivalents	22	148,971	100,262	182,714
Balance with Government Departments	22	206	206	206
Payables (within 12 months)	23.1	(320,794)	(263,674)	(362,367)
Net current assets/liabilities, excluding pension liability		99,401	153,488	179,692
Receivables (after 12 months)	21.1	156,049	169,042	216,000
Pension liability	24.3	(152,961,000)	(115,741,000)	(119,397,000)
Net liabilities, including pension liabilities		(152,705,550)	(115,418,470)	(119,001,308)
Compensation agency arrangements				
CSCS				
Receivables (within 12 months)	25.1	1,619	1,605	1,160
Payables (within 12 months)		-	(23)	(668)
Net current assets		1,619	1,582	492
Payables (after 12 months)		-	-	(23)
Net assets		1,619	1,582	469
Other minor agency and principal pension scheme arrangements				
Other pension schemes				
Receivables (within 12 months)	27.1	2,683	9,541	6,417
Payables (within 12 months)	28.1	(33)	(4,300)	(1,486)
Net current liabilities, excluding pension liability		2,650	5,241	4,931
Pension liability	29	(2,249,000)	(1,523,000)	(1,613,000)
Net liabilities, including pension liabilities		(2,246,350)	(1,517,759)	(1,608,069)
Combined Scheme – Total net Liabilities				
		(154,950,281)	(116,934,647)	(120,608,908)
Taxpayers' equity:				
General Fund	30	(154,950,281)	(116,934,647)	(120,608,908)

Accounting Officer
13 July 2010

The notes on pages 26 to 46 form part of these financial statements.

**Consolidated Statement of Cash Flows
for the year ended 31 March 2010**

		2009-10	2008-09
		£000	£000
Cash flows from operating activities			
Combined net outgoings for the year	31.1	(7,437,877)	(7,156,508)
Adjustments for non-cash transactions			
(Increase)/Decrease in PCSPS receivables (within 12 months)	33	45,681	42,441
(Increase)/Decrease in PCSPS receivables (after 12 months)	34	12,993	46,958
<i>Less movement in non-Supply receivables – injury benefit</i>	33	(5)	4
<i>Less movement in non-Supply receivables – ACPs inc Lump Sums</i>	33	(14)	(445)
<i>Less movement in non-Supply receivables</i>	33	19	441
<i>Less movement in Consolidated Fund Payable</i>	33	-	(22,887)
(Increase)/Decrease in Other Schemes receivables	33	6,858	(3,124)
Increase/(Decrease) in PCSPS payables	33	8,392	6,206
Increase/(Decrease) in CSCS payables (within 12 months)	33	(23)	(645)
Increase/(Decrease) in CSCS payables (after 12 months)	34	-	(23)
Increase/(Decrease) in Other Schemes payables	33	(4,267)	2,814
Increase in PCSPS pension provisions	31.1	10,480,001	10,180,000
Increase in PCSPS pension provisions - enhancements and transfers in	31.1	235,484	53,887
Increase in Other Schemes pension provisions	31.1	168,837	154,889
Use of PCSPS provisions - pensions liability	24.4	(4,385,946)	(4,076,428)
Use of PCSPS provisions - refunds and transfers out	24.5	(169,380)	(133,716)
Use of PCSPS provisions - death in service	24.4	(42,727)	(41,922)
Use of Other Schemes provisions	31.1	(52,797)	(49,860)
Net cash requirement		(1,134,771)	(997,918)
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year	31.3	1,285,582	1,100,000
From the Consolidated Fund (Supply) - prior year	31.3	(102,082)	(184,094)
Net Parliamentary financing		1,183,500	915,906
Adjustments for payments and receipts not related to Supply			
Compensation agency payments made on behalf of employers (including lump sums payments)	31.2	(421,347)	(436,469)
Reimbursement of compensation payments by employers (including lump sum payments)	31.2	421,332	436,024
Injury benefit payments made on behalf of employers	31.2	(6,648)	(6,346)
Reimbursement of injury benefit payments by employers	31.2	6,643	6,351
Net Financing		1,183,480	915,466

Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	31.3	48,709	(82,452)
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		21	1
Payments of amounts due to the Consolidated Fund		<u>(21)</u>	<u>(1)</u>
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		48,709	(82,452)
Cash and cash equivalents at the beginning of the period		<u>100,468</u>	<u>182,920</u>
Cash and cash equivalents at the end of the period		<u>149,177</u>	<u>100,468</u>

The notes on pages 26 to 46 form part of these financial statements.

Notes to the Accounts

1. Basis of preparation of the scheme statement

1.1 The combined scheme statements have been prepared in accordance with the relevant provisions of the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury which reflect the requirements of IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefits Plans*. These accounts show the unfunded pension liabilities and movements in those liabilities during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes (Revised May 2007)* to the extent that these are appropriate.

In addition to the primary statements prepared under International GAAP, the FReM also requires the scheme to prepare an additional statement – a *Statement of Parliamentary Supply*. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

PCSPS principal arrangements

1.2 The scheme statement summarises the transactions of the PCSPS where Civil Service Pensions Division (CSP) acts as a principal. The Statement of Financial Position shows the net liabilities on the scheme. The revenue account shows, amongst other things, the movements in liabilities analysed between the current service cost, enhancements and transfers in, and the interest on the scheme liabilities. The actuarial position of the PCSPS is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

CSCS agency arrangements

1.3 CSP acts as agent for employers in the payment of compensation benefits arising under the CSCS. Benefits paid out in the month are generally recovered from employers at month-end. These financial flows are not brought to account in the financial statements. However, the statements recognise the liabilities arising from any amounts that have been pre-funded by employers (see note 26). The liabilities in relation to prefunding of compensation liabilities by employers are now fully met (2008-09: £0.023 million). The accumulated value of the future funding which was reimbursed from the Consolidated Fund when payments were made to beneficiaries was not reflected as an asset of the CSCS in these accounts as the sums payable were subject to annual approval by Parliament through the supply procedure.

Other minor agency and principal pension scheme arrangements

1.4 In addition, the financial statement includes transactions relating to other minor pension schemes, a number of which are closed schemes. CSP acts as principal in respect of pension paid to the Governor of an overseas colony, awarded prior to the introduction of a new scheme on 30 September 1978. CSP acts as principal in respect of the Security Service and Secret Intelligence Service pension schemes on the basis of audited information supplied by the agencies. CSP acts as an agent for the following schemes:

- Pension increases to former Prime Ministers, former Speakers, various former public service appointees and former MEPs and their widow(er)s;
- Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service;
- Payments to Post Office Staff Superannuation Scheme for pensions paid in respect of periods in the Civil Service;
- Pension increases in respect of pensions paid to former staff of the Raw Cotton Commission;
- Pension increases in respect of pensions paid to former staff of the Sugar Board;
- Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seaman's National Insurance Society);
- Federated Superannuation Scheme for Universities.

1.5 The accounting policies adopted are described below. They have been consistently applied in dealing with items that are considered material in relation to the scheme statement.

2. Accounting Policies

2.1 These are the first set of financial statements to be prepared under the International Financial Reporting Standards (IFRS). IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans* are applicable to accounting for pension schemes. The objective of IAS 26 is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans. It complements IAS 19, which deals with the determination of the cost of retirement benefits in the financial statements of employers.

2.2 In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

2.3 *Accounting policies for PCSPS principal arrangements*

2.3.1 The accounting policies contained in the FReM follow international generally accepted accounting practice for companies (International GAAP) to the extent that it is meaningful and appropriate to the public sector.

2.3.2 Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Schemes for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.3.3 These accounts have been prepared under the historical cost convention.

2.4 *Contributions receivable*

2.4.1 Employers' normal pension contributions are accounted for on an accruals basis. There are no employers' special pension and compensation contributions.

2.4.2 Employees' pension contributions which exclude amounts received in respect of the purchase of added pension (dealt with in 2.4.3 below) and Additional Voluntary Contributions (dealt with in 2.16 below) are accounted for on an accruals basis.

2.4.3 Employees' pension contributions paid in respect of the purchase of added pension are accounted for on an accruals basis. The associated increase in the PCSPS pension liabilities is recognised as expenditure.

2.5 *Transfers in*

2.5.1 Transfers in are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on a cash basis, although group transfers in may be accounted for on an accruals basis where the PCSPS has formally accepted liability.

2.6 *Income received from departments in respect of enhancements*

2.6.1 Amounts receivable from employers in respect of bringing forward the payment of accrued superannuation lump sums, and in respect of the capitalised costs of pension enhancement either at early departure or normal retirement age, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

2.7 *Other pension income*

2.7.1 The remaining element of "other income" including repayment of gratuities and overpayments recovered other than by deduction from future benefits, are accounted for as income and expenditure (representing the associated increase in the PCSPS pension liabilities) on an accruals basis.

2.8 *Pension cost*

2.8.1 The current service cost is the increase in the present value of the PCSPS pension liabilities arising from members' service in the current period and is recognised in the revenue account. It is determined by the scheme actuary taking into account employer and employee contributions receivable in 2009-10 and based on a discount rate of 1.8% real (4.6% including inflation).

2.9 *Interest on scheme liabilities*

2.9.1 The interest cost is the increase during the period in the present value of the PCSPS pension liabilities because benefits are one year closer to settlement and is recognised in the revenue account. The interest cost is based on a nominal rate of 4.6% (discount 1.8% real and assumed inflation rate of 2.75%).

2.10 *Injury benefits*

2.10.1 Injury benefits are accounted for on an accruals basis. They are not funded through the employers' pension contributions and the amounts payable in respect of injuries sustained before 1 April 1998 are a charge on the PCSPS and are shown in the revenue account. Those benefits paid in respect of injuries sustained on or after 1 April 1998 are recoverable from employers each month.

2.11 *Scheme liabilities*

2.11.1 Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at 1.8% real (4.6% after inflation). Full actuarial valuations by a professional qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the Statement of Financial Position date and updates it to reflect current conditions.

2.12 *Pension benefits payable*

2.12.1. Pension benefits payable, including lump sums, are accounted for on an accruals basis as a decrease in the PCSPS pension liabilities.

2.13 *Payments to and on account of leavers*

2.13.1 Refunds of employees' contributions are accounted for on an accruals basis and as a decrease in the PCSPS pension liabilities. Refunds include amounts payable both at time of leaving or at normal retirement age (or earlier death).

2.14 *Transfers out*

2.14.1 Transfers out are accounted for on a cash basis. They are accounted for as a decrease in the PCSPS pension liabilities.

2.15 *Actuarial gains/losses*

2.15.1 Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Statement of Recognised Gains and Losses for the year.

2.16 *Additional Voluntary Contributions*

2.16.1 Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employing departments to one of three appointed AVC providers.

2.17 *Central management administrative expenses*

Employers are responsible for the day to day administration of the PCSPS/CSCS and meet the associated costs from their running cost provision. An element of the accruing superannuation liability charge, paid by employers, is appropriated in aid by the Cabinet Office to offset central management costs. These include the costs associated with the management and development of Civil Service pension arrangements, the procurement of pension payroll and other services, maintenance and development of pension software used by scheme administrators and the publication of explanatory scheme material. In 2009-10 these costs amounted to £15.1 million (2008-09: £10.7 million).

3. Accounting policies for CSCS agency arrangements

3.1 *Benefits payable*

3.1.1 Compensation benefits for staff leaving before normal retirement age are met by employing departments. For administrative convenience and value for money considerations, compensation benefits are paid initially by CSP, throughout the month, but then recovered from employers at month-end. These transactions are not recorded in the combined revenue account. Details of compensation benefits payable during 2009-10 are shown at note 17.

3.2 *Pre-funding of early retirements*

3.2.1 Under arrangements that were discontinued with effect from 1 April 2000, some employers were able to make cash payments to CSP to pre-fund compensation payments that will be paid to their former employees in the forthcoming years. Employers have allocated these amounts, subsequently surrendered to the Consolidated Fund, for use in each financial year, up to and including 2009-10. As this is the final year of these offset arrangements there are no balances to carry forward. For prior years cash received, but not yet utilised, was recognised as a liability in the combined Statement of Financial Position. Transactions that cleared these liabilities were recorded as Statement of Financial Position items only.

3.2.2 The cash pre-funded by employers reduces their liabilities for compensation benefits by a greater amount and the discount, the difference between the cash pre-funded and the offset allowed in the year, is charged to the combined revenue account, see note 17.

4. Accounting policies for other minor agency and principal pension scheme arrangements

4.1 The policies applied to the PCSPS principal arrangements also apply to the transactions and balances of the Security Service and Secret Intelligence Service pension schemes included within these financial statements, with the exception that current service costs are calculated using rates specific to the agencies.

Reconciliation of Estimates, accounts and budgets**5. Reconciliation of net resource outturn to combined net outgoings**

	2009-10			2008-09
	£000			£000
	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	7,437,877	7,440,301	2,424	7,156,509
Non-supply income (CFERs)	(21)	-	21	(1)
Combined Net Outgoings	7,437,856	7,440,301	2,445	7,156,508

6. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: Saving/(excess)
		£000	£000	£000
Net Resource Outturn	5	7,440,301	7,437,877	2,424
Accruals adjustments:				
Non-cash items	32	(10,889,501)	(10,884,322)	(5,179)
Changes in working capital other than cash	33	206,201	(56,641)	262,842
Changes in payables/receivables falling due after more than one year	34	-	(12,993)	12,993
Use of provision to pay pensions		4,699,500	4,650,850	48,650
Excess cash to be surrendered to the Consolidated Fund		-	-	-
Net Cash Requirement		1,456,501	1,134,771	321,730

7. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the schemes and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	Forecast 2009-10		Outturn 2009-10	
		£000	£000	£000	£000
		Income	Receipts	Income	Receipts
Operating income and receipts – Excess A in A		-	-	-	-
Other operating income and receipts not classified as A in A	8	-	-	-	-
Other non-operating income and receipts not classified as A in A		-	-	21	21
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
Excess cash surrenderable to the Consolidated Fund		-	-	-	-
Total income payable to the Consolidated Fund		-	-	21	21

8. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Operating income	3,456,256	3,241,583
Gross income	3,456,256	3,241,583
Income authorised to be Appropriated in Aid	<u>(3,458,700)</u>	<u>(3,342,000)</u>
Operating income payable to the Consolidated Fund	<u>-</u>	<u>-</u>

Revenue account – PCSPS principal arrangements

9. Pension contributions receivable

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Employers' *	(2,803,070)	(2,802,725)
Employees':		
Normal	(343,145)	(317,601)
Purchase of added years	(41,970)	(38,061)
	<u>(3,188,185)</u>	<u>(3,158,387)</u>

* included in this amount are contributions of £4.6 million from those employers referred to in the Report of the Manager where an issue has been identified regarding their ongoing eligibility to participate in the PCSPS.

10. Pension transfers-in

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Group transfers from other schemes	(7,430)	114,094
Individual transfers in from other schemes	(103,010)	(68,779)
	<u>(110,440)</u>	<u>45,315</u>

11. Other pension income

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Refund of gratuities received	(2)	(1)
Amounts receivable in respect of:		
bringing forward the payment of accrued superannuation lump sums	(20,079)	(14,208)
capitalised cost of enhancement to pensions, payable on departure	(46,142)	(37,231)
capitalised cost of enhancement to pensions, payable at age 60	(17,195)	(14,986)
Non-retainable income	(21)	-
	<u>(83,439)</u>	<u>(66,426)</u>

12. Pension Cost

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Current service cost	3,510,001	3,830,000
	<u>3,510,001</u>	<u>3,830,000</u>

13. Enhancements

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Employees:		
Purchase of added years	41,970	38,061
Refund of gratuities received	2	1
Employers:		
Bringing forward the payment of accrued lump sums	20,079	14,207
Enhancements to pensions on departure	46,142	37,231
Enhancements to pensions on retirement	17,195	14,985
	<u>125,388</u>	<u>104,485</u>

14. Transfers in

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Group transfers in from other schemes	7,086	(119,377)
Individual transfers in from other schemes	103,010	68,779
	<u>110,096</u>	<u>(50,598)</u>

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Revenue account as expenditure as part of the movements in the provision during the year.

15. Interest on scheme liabilities

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Interest charge for the year	6,970,000	6,350,000
	<u>6,970,000</u>	<u>6,350,000</u>

16. Benefits payable – not charged to provisions

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Special payments	77	-
Injury benefits	15,130	14,304
Less Injury benefits recoverable from employers	(6,648)	(6,346)
	<u>8,559</u>	<u>7,958</u>

Revenue account – CSCS compensation agency arrangements

17. The following represent annual compensation payments payable, not recoverable from employers, brought to account in the combined revenue account.

17.1 Benefits payable – not charged to provisions

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Difference between provision for current year and outturn expenditure and residual payments	52	220
Discounts allowed on pre-funded annual compensation payments	1	13
Discounts allowed on pre-paid annual compensation payments	-	(1)
	<u>53</u>	<u>232</u>

17.2 The following represent the total annual compensation payments and compensation lump sums payable:

Recoverable from employers	233,380	219,177
Pre-funded by employers (note 26.2)	23	410
Discounts allowed on pre-funding (note 17.1)	1	13
Discounts allowed on pre-payments (note 17.1)	-	(1)
Amounts met from central funding (note 17.1)	52	220
Total annual compensation payable	<u>233,456</u>	<u>219,819</u>
Lump sum payable recoverable from employers	187,966	217,292
Total lump sums payable	<u>187,966</u>	<u>217,292</u>

Revenue account – Other minor agency and principal pension scheme arrangements**18. Benefits payable – not charged to provisions**

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Pensions increase for ex-PMs/Speakers	73	60
Pensions increase for Public Service Appointments	160	144
Pensions increase for ex MEPS/widow(er)s	349	275
Payments to United Kingdom Atomic Energy Authority for pensions paid in respect of periods in the Civil Service	60	70
Payments to Post Office Staff Superannuation for pensions paid in respect of periods in the Civil Service	242	277
Pensions increases in respect of pensions paid to former staff of the Raw Cotton Commission	2	2
Pensions increases in respect of pensions paid to former staff of the Sugar Board	24	25
Approved Societies and certain other bodies which were displaced by the operation of the National Insurance Act 1946 (Prudential Approved Societies, Sick Visitors and Seaman's National Insurance Society)	1	1
Pensions to Governors of overseas colonies awarded prior to the introduction of a new scheme in 1978	1	1
Federated Superannuation Scheme for Universities	266	270
	<u>1,178</u>	<u>1,125</u>

19. Additional Voluntary Contributions

19.1 The Civil Service Additional Voluntary Contribution Scheme (CSAVCS) provides for employees to make AVCs to increase their pension entitlements or to increase life cover. Employees may arrange to have agreed sums deducted from their salaries, for onward

payment by their employers to one of the three appointed providers (Equitable Life Assurance Society, Scottish Widows' Fund and Standard Life Assurance Society), or may chose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offers Free Standing Additional Voluntary Contribution Schemes (FSAVCs). The Managers of the CSAVCS are only responsible for payments made to the Scheme's appointed providers. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the appointed provider at 31 March each year (5 April for Equitable Life) confirming the amounts held to their account and the movements in year.

19.2 The aggregate amounts of AVC investments are as follows:

	2009-10			2008-09		
	Standard Life	Equitable Life ¹	Scottish Widows	SL	EL ¹	SW
	£000	£000	£000	£000	£000	£000
Movements in the year:						
Balance at 1 April	39,755	17,150	119,034	46,844	20,476	*123,312
New investments	2,809	505	8,765	3,029	211	9,272
Sales of investments to provide pension benefits	12,209	(2,075)	(12,429)	(2,521)	(2,625)	(13,665)
Changes in market value of investments	(2,952)	2,211	24,210	(7,597)	(912)	114
Balance at 31 March	51,821	17,791	139,580	39,755	17,150	119,033
Contributions to provide life cover	n/a	105	n/a	n/a	116	n/a
Benefits paid on death	n/a	56	n/a	n/a	215	n/a

1 – data as at 5 April

* Northern Ireland and By-Analogy schemes are no longer included in this figure

20. Contingent liabilities disclosed under IAS 37

In the unlikely event of default by an appointed AVC provider, pension payments are guaranteed by the scheme. This guarantee does not apply to members who make payments to institutions offering FSAVCs nor where members exercise the open market option and purchase their annuity elsewhere.

Statement of Financial Position – PCSPS principal arrangements**21. Receivables – contributions due in respect of pensions****21.1 Analysis by type**

	31 March 10	31 March 09	1 April 08
	£000	£000	£000
Amounts falling due within one year:			
Pension contributions due from Employers	214,349	234,894	178,237
Employees' normal contributions	25,703	25,843	19,457
Employees' added pension	2,983	3,051	2,215
Early retirement Employer costs	252	215	129
Individual transfers	-	-	231
Group transfers	24,000	50,000	156,060
Sub Total	267,287	314,003	356,329
Overpayment receivables (Net of provision for non recovery)	3,717	2,682	2,797
Injury benefit receivables	14	9	13
Balance at 31 March	271,018	316,694	359,139
Amounts falling due after more than one year:			
Group transfers	155,994	169,000	216,000
Long term receivables	55	42	-
	156,049	169,042	216,000

21.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
			year	
	2009-10	2008-09	2009-10	2008-09
	£000	£000	£000	£000
Balances with other central government bodies	239,588	286,327	155,994	169,000
Balances with Local authorities	11,030	12,873	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	13,610	10,110	-	-
Bodies external to government	6,790	7,384	55	42
At 31 March	271,018	316,694	156,049	169,042

22. Cash and cash equivalents

	31 March 10	31 March 09
	£000	£000
Balance at 1 April	100,468	182,920
Net change in cash balances	48,709	(82,452)
Balance at 31 March	149,177	100,468
The following balances at 31 March were held:		
Cash at bank	148,971	100,262
Balance with Government departments	206	206
Balance at 31 March	149,177	100,468

Cash analysis

	31 March 10	31 March 09	1 April 08
	£000	£000	£000
Cash at bank	148,971	100,262	182,714
Balance with Government Departments	206	206	206
Non-Supply receivables for CSCS payments	1,619	1,605	1,160
Non-Supply receivables for injury benefit payments	14	9	14
Amounts undrawn from the Consolidated Fund in respect of Supply	170,919	50,000	130,000
	321,729	152,082	314,094
Consolidated Fund Supply unspent at year-end	321,729	152,082	314,094
	321,729	152,082	314,094

23. Payables – in respect of pensions**23.1 Analysis by type**

	31 March 10	31 March 09	1 April 08
	£000	£000	£000
Pensions	(132,207)	(127,168)	(120,123)
Income Tax	(37,777)	(34,424)	(35,263)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(150,810)	(102,082)	(184,094)
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	-	-	(22,887)
Balance at 31 March	(320,794)	(263,674)	(362,367)

23.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009-10	2008-09	2009-10	2008-09
	£000	£000	£000	£000
Balances with other central government bodies	(194,102)	(137,482)	-	-
Balances with Local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Bodies external to government	(126,692)	(126,192)	-	-
At 31 March	(320,794)	(263,674)	-	-

24. Provision for pension liability**24.1 Assumptions underpinning the provision for pension liability**

24.1.1 The PCSPS is an unfunded defined benefit scheme. Hewitt Associates Limited carried out a full actuarial valuation of the scheme liabilities as at 31 March 2007 and has based their calculations on a detailed but approximate update. The Report of the Actuary on pages 10 to 12 sets out the scope, methodology and results of the work the actuary has carried out.

24.1.2 CSP, together with the actuary and the auditor, have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that CSP should

make available to the actuary in order to meet the expected requirements of the scheme auditor. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- following consultation with the actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

24.1.3 The major assumptions used by the actuary were:

At 31 March	2010	2009	2008	2007	2006
Rate of increase in salaries	4.25%	4.25%	4.25%	4.25%	3.9%
Inflation assumption	2.75%	2.75%	2.75%	2.75%	2.5%
Discount rate	1.8%	3.2%	2.5%	1.8%	2.8%

24.1.4 The actuary has looked into the mortality experience of the PCSPS within the past five years. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations at age 60 are:

	2010	2009	2008	2007	2006
Retiring at 31 March age 60					
Males	28.0	27.9	26.4	24.4	24.4
Females	30.0	29.9	28.1	27.4	27.4
Retiring in 20 years (a 40 year old)					
Males	30.0	29.9	29.0	26.8	26.8
Females	31.9	31.8	29.6	29.8	29.8

24.1.5 These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, CSP acknowledges that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

24.1.6 The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As set out in the FReM, and as required by IAS 19, the PCSPS uses the AA corporate bond rate to discount the liabilities. From 2005-06, the Government Actuary has calculated the rate annually on behalf of HM Treasury, who then advise the PCSPS of

the rate for the year. The rates are set out in the above table at 24.1.3. Any decrease in the rate leads to a significant increase in the reported liability.

24.1.7 In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The PCSPS does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the PCSPS, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

24.2 Analysis of the provision for pension liability

Value of liabilities (£ billion)						
At 31 March	2010	2009	2008	2007	2006	
Current pensions and associated contingent pensions	57.8	50.6	46.4	44.8	37.9	
Deferred pensions, including contingent pensions, for those no longer contributing to the scheme	24.8	19.0	21.0	25.1	18.3	
Accrued benefits available to members contributing to the PCSPS	70.4	46.1	52.0	58.9	45.1	
Total	153.0	115.7	119.4	128.8	101.3	

24.3 Analysis of movement in scheme liability

	31 March 10	31 March 09	1 April 08
	£000	£000	£000
Scheme liability at 1 April	(115,741,000)	(119,397,000)	(128,781,428)
Current service cost (note 12)	(3,510,001)	(3,830,000)	(4,580,000)
Enhancements (note 13)	(125,388)	(104,485)	(121,212)
Pension transfers-in (note 14)	(110,096)	50,598	(115,826)
Interest on pension scheme liability (note 15)	(6,970,000)	(6,350,000)	(5,940,000)
Benefits paid (note 24.4)	4,428,673	4,118,350	3,844,660
Pension payments to and on account of leavers (note 24.5)	169,380	133,716	166,003
Actuarial gain/(loss) (note 24.6)	(31,102,568)	9,637,821	16,130,803
Scheme liability at 31 March	(152,961,000)	(115,741,000)	(119,397,000)

During the year ended 31 March 2010, contributions represented an average of 18.9% of pensionable pay.

24.4 Analysis of benefits paid

	2009-10	2008-09
	£000	£000
Pensions to:		
Retired employees	3,251,835	3,045,496
Widow(er)s*	408,807	391,241
Dependants	7,584	7,225
Lump sum benefits paid:		
on retirement (including early retirement)	717,720	632,466
	4,385,946	4,076,428
on death	42,727	41,922
Per the Cash Flow Statement	4,428,673	4,118,350

* includes partners (Classic Plus/Premium members) and civil partners

24.5 Analysis of payments to and on account of leavers

	2009-10	2008-09
	£000	£000
Refunds to members leaving the service	29,033	26,081
Payments for members joining State scheme	3,672	2,019
Group transfers to other schemes	11,856	8,780
Individual transfers to other schemes	124,819	96,836
Per cash flow statement	169,380	133,716

24.6 Analysis of actuarial gain/(loss)

	2009-10	2008-09
	£000	£000
Experience gains/(losses) arising on the scheme liabilities	3,899,568	(740,822)
Changes in assumptions underlying the present value of scheme liabilities*	(35,002,136)	10,378,643
Per the Statement of Recognised Gains and Losses	(31,102,568)	9,637,821

* This is almost exclusively attributable to the changes in the discount rate (note 24.1.3)

24.7 History of Experience gains and losses

	2009-10	2008-09	2007-08	2006-07	2005-06
Experience (gains)/losses on the scheme liabilities					
Amount (£000)	(3,899,568)	740,822	(4,402,803)	1,359,719	911,961
Percentage of the present value of the scheme liabilities	(2.5%)	0.6%	(3.7%)	1.0%	0.9%
Total actuarial (gain)/loss					
Amount (£000)	31,102,568	(9,637,821)	(16,130,803)	22,007,192	911,961
Percentage of the present value of the scheme liabilities	20.3%	(8.3%)	(13.5%)	17.0%	0.9%

Statement of Financial Position – CSCS compensation agency arrangements**25.1 Receivables – Non-Supply**

	<u>31 March 10</u>	<u>31 March 09</u>	<u>1 April 08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Recoverable annual compensation payments (inc lump sums)	1,619	1,605	1,160
Balance at 31 March	1,619	1,605	1,160

25.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009-10	2008-09	2009-10	2008-09
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	869	725	-	-
Balances with Local authorities	158	447	-	-
Balances with public corporations and trading funds	448	301	-	-
Bodies external to government	144	132	-	-
At 31 March	1,619	1,605	-	-

26 Payables – amounts falling due within one year**26.1 Central funding of early departures**

Some employers received central funding support of up to 80% of the on-going compensation payments made to their former employees who left between 1 October 1994 and 30 March 1997. This support continued until their former employees reached normal retirement age, which for most was 60. At that stage compensation payments were then replaced by pension payments payable under the rules of the PCSPS. There were a small number of cases where the former employee's normal retirement age was 65 and Central funding support continued for those members until they reached age 65. The last balance required to be shown was in the 2007-08 resource accounts.

26.2 Annual compensation payments pre-funded by employers

Employing departments were, until March 2000, able to use current-year underspends on running costs to reduce or extinguish their existing liabilities in respect of annual compensation payments arising from the early retirement of their employees. This scheme ran for 10 years with the remaining balance of the pre-funding being offset against the 2009-10 bills. Details of departments' pre-funding are as follows:

Pre-funding	<u>31 March 10</u>	<u>31 March 09</u>	<u>1 April 08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	(23)	(433)	(1,669)
Used in year: compensation paid	23	410	1,236
Balance at 31 March	-	(23)	(433)
To be used in next 12 months	-	(23)	(410)
To be used after more than 12 months	-	-	(23)

26.3 Intra-Government Balances

As this was the final year of this scheme there was only one balance of £23,000 to bring forward which was related to other central government bodies.

Statement of Financial Position – Other minor agency and principal pension scheme arrangements

27.1 Receivables – amounts falling due within one year

	<u>31 March 10</u>	<u>31 March 09</u>	<u>1 April 08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Contributions	2,683	9,541	6,417
Balance at 31 March	2,683	9,541	6,417

27.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009-10	2008-09	2009-10	2008-09
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	2,683	9,541	-	-
At 31 March	2,683	9,541	-	-

28.1 Payables – amounts falling due within one year

	<u>31 March 10</u>	<u>31 March 09</u>	<u>1 April 08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Pensions	(33)	(4,300)	(1,486)
Balance at 31 March	(33)	(4,300)	(1,486)

28.2 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2009-10	2008-09	2009-10	2008-09
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	(6)	(4,300)	-	-
Bodies external to government	(27)	-	-	-
At 31 March	(33)	(4,300)	-	-

29. Provision for pension liability

29.1 The Government Actuary provides an annual valuation of the Security Service and Secret Intelligence Service pension schemes included within these financial statements. The assumptions underlying the valuation are disclosed in his Report, which is examined by the Comptroller and Auditor General as part of his audit of information supplied by the agencies for inclusion in these financial statements

29.2 Analysis of movement in scheme liability

	<u>31 March 10</u>	<u>31 March 09</u>	<u>1 April 08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Opening scheme liability at 1 April	1,523,000	1,613,000	1,598,000
Net movement in year (including actuarial gain/loss)	726,000	(90,000)	15,000
Scheme liability at 31 March	<u>2,249,000</u>	<u>1,523,000</u>	<u>1,613,000</u>

30. General Fund

The General Fund represents the total assets less liabilities of the pension schemes, to the extent that the total is not represented by other reserves and financing items.

	<u>31 March 10</u>	<u>31 March 09</u>	<u>1 April 08</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April	(116,934,647)	(120,608,908)	(129,863,916)
Net Parliamentary Funding			
Drawn down	1,183,500	915,906	639,540
Deemed	102,082	184,094	180,460
Year end adjustment			
Supply Payable - current year	(150,811)	(102,082)	(184,094)
Net Transfer from Operating Activities			
Combined Net Outgoings	(7,437,856)	(7,156,508)	(7,573,232)
Excess Appropriations in aid	-	-	(22,887)
CFERs repayable to the Consolidated Fund	(21)	-	(2,740)
Actuarial gains and losses (SRGL)	(31,712,528)	9,832,851	16,217,961
Balance at 31 March	<u>(154,950,281)</u>	<u>(116,934,647)</u>	<u>(120,608,908)</u>

31. Notes to the Cash Flow Statement

31.1 Reconciliation of combined net outgoings to operating cash flows

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Combined net outgoings for the year	(7,437,877)	(7,156,508)
Adjustments for non-cash transactions	33	56,622
Adjustments for payables/receivables falling due after more than one year	34	12,993
Increase in PCSPS pension provision	10,480,001	10,180,000
Increase in PCSPS pension provision – enhancements and transfers in	235,484	53,887
Increase in other schemes pension provision	168,837	154,889
Use of PCSPS provisions	(4,598,054)	(4,252,065)
Use of other schemes provisions	(52,797)	(49,860)
Net cash outflow from operating activities	<u>(1,134,791)</u>	<u>(975,471)</u>

31.2 Analysis of financing, and reconciliation to the net cash requirement

	2009-10	2008-09
	£000	£000
From the Consolidated Fund (Supply) current year	1,285,582	1,100,000
From the Consolidated Fund (Supply) prior year	(102,082)	(184,094)
Net Financing	1,183,500	915,906
Increase in cash	(48,709)	82,452
Net cash flows other than financing	1,134,791	998,358
Compensation agency payments made on behalf of employers (inc Lump Sum payments)	(421,347)	(436,469)
Reimbursement of compensation payments made by employers (inc Lump sum payments)	421,332	436,024
Injury benefit payments made on behalf of employers	16 (6,648)	(6,346)
Reimbursement of injury benefit payments made by employers	6,643	6,351
Net cash requirement per Statement of Parliamentary Supply	1,134,771	997,918

31.3 Reconciliation of Net Cash Requirement to increase in cash

	2009-10	2008-09
	£000	£000
Net cash requirement	(1,134,771)	(997,918)
From the Consolidated Fund (Supply) - current year	1,285,582	1,100,000
From the Consolidated Fund (Supply) - prior year	(102,082)	(184,094)
Non-supply - cash flows from other sources	(20)	(440)
Increase/(decrease) in cash	48,709	(82,452)

32. Non-cash items

	2009-10	2008-09
	£000	£000
Current service cost	3,510,001	3,830,000
Enhancements	125,388	104,485
Pension transfers-in	110,096	(50,598)
Interest on pension scheme liability	6,970,000	6,350,000
Total charge to provisions – other schemes	168,837	154,889
Non cash items	10,884,322	10,388,776

33. Movements in working capital other than cash

	2009-10	2008-09
	£000	£000
Movement in receivables related to supply – PCSPS	(45,681)	(42,441)
Movement in receivables related to supply – Other schemes	(6,858)	3,124
Movement in payables due within 1 year – PCSPS	(8,392)	(6,206)
Movement in payables due within 1 year – CSCS	23	645
Movement in payables due within 1 year – Other schemes	4,267	(2,814)
Movement in receivables not related to supply – Injury benefit	5	(4)
Movement in receivables not related to supply - ACPs inc Lump sums	14	445
	(56,622)	(47,251)
Movement in Consolidated Fund Payable	-	22,887
Adjustment for movement in non-supply receivables	(19)	(441)
	(56,641)	(24,805)

34. Movements in payables/receivables falling due after more than one year

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Movement in payables due after 1 year – CSCS	-	23
Movement in receivables due after 1 year – PCSPS	(12,993)	(46,958)
	<u>(12,993)</u>	<u>(46,935)</u>

35. Adjustments re Consolidated Fund

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
Consolidated Fund Supply Receivable/(Payable)	(150,810)	(102,082)
	<u>(150,810)</u>	<u>(102,082)</u>

36. Events after the Reporting Period

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the PCSPS.

The Government has announced its intention to introduce legislation to limit the costs of future compensation payments for both compulsory and voluntary Civil Service exits. Specifically, the Bill will propose that all departures on compulsory terms from the Civil Service are capped at a maximum of twelve months salary and departures under any other voluntary arrangements will be capped at fifteen months salary. This is intended as a temporary measure pending introduction of a new scheme which is both affordable and sustainable in the long term.

Cabinet Office: Civil Superannuation's financial statements are laid before the Houses of Parliament by HM Treasury. IAS 10 requires Cabinet Office: Civil Superannuation to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by Cabinet Office: Civil Superannuation to HM Treasury.

The authorised date for issue is 22 July 2010.

37. Financial Instruments

IAS 39, *Financial Instruments: Recognition and Measurement*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

CSP has no borrowings and relies solely on resources voted by Parliament to finance the PCSPS's net revenue resource requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

38. Losses

During the year 1,531 losses of £19,595,215 were written off (2008-09: 1,742 - £128,730). This includes £19.48m of GMP overpayments which were written off with HM Treasury's authority.

39. Related Party Transactions

The PCSPS, CSCS and the Security Service and Secret Intelligence Service schemes fall within the ambit of the Cabinet Office, which is regarded as a related party. During the year, the Schemes have had material transactions with the Cabinet Office and other departments, executive agencies and trading funds whose employees are members of the Schemes. None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions with the Schemes during the year.



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